



BELIEVE OR NOT, SECURITIES LENDING IS MUCH MORE THAN JUST A STOCK LOAN

FACING THE COMPLEXITIES OF SECURITIES LENDING HEAD ON

ISITC's Securities Lending Working Group was formed a couple years ago with the mission of establishing market practice standards for basic lending related trade activity. The Working Group has been evolving ever since, for as those in the Stock Loan arena are aware, Securities Lending is a microcosm of the Securities Industry where the processing of it's related activities are more intricate than the handling of regular trades. Reconciling an account in the middle of a partial call event while a portion of the position being called is on loan during a lottery is not a walk in the park for the faint of heart. Through continuous collaboration, with their eyes set on simplifying the associated complex workflows, the Working Group has several ambitious innovations and goals set for completion in 2008.

AUTOMATING REALLOCATIONS AND LOAN SWAPS

Initiating a two-year long effort to address the lack of market practice recommendations for processing the seemingly simple yet complex transactions of loan re-allocations, the Group is working diligently to finalize a Re-allocation Market Practice document.

Since there is currently no industry-wide straight-through process for this activity, the finalized document will work to address one of the last major transaction-type activity left to be automated.

CORPORATE ACTIONS: MANAGING RISK THROUGH FULL DISCLOSURE

Securities Lending continues to partner with the Corporate Actions Working Group in an effort to clarify the Market Practice guidelines for including lending information in corporate action messages.

Once implemented, this initiative will allow for the provision of critical entitlement data required by Investment Managers to make well informed elections while increasing the processing efficiencies of voluntary corporate actions events for assets on loan being serviced by Custodians.

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The Securities Lending Working Group establishes comprehensive market practice standards for all securities lending related activity.

Anyone interested in becoming a part of these innovative developments and being at the forefront of the market changes can visit the Securities Lending Working Group at www.isitc.org or contact any of the Co-Chairs for additional information.

For more information, visit www.isitc.org

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THERE'S MORE THAN ONE WAY TO PROCESS A LOAN

In an effort to formalize the processing workflows for differing Stock Loan models, the Group is slated to create a document that seeks to lay out and explain the fundamental lending principles used by various companies. The aim of this documentation is to provide clarity when multiple parties, such as lending agents; custodians; and reporting entities, are involved in a process that requires cross-pollinating instructions, confirmations and asset balances to make it work.

IDENTIFYING THE DIFFERENCES

The Group is also working jointly with ISITC's Reconciliation Working Group on an initiative to identify and publish Market Practice requirements as they relate to Securities Lending. While the existing market practice is mature, changes added in November of 2007 to allow for more granularity, along with new changes being applied in the upcoming 2008 Release need to be clearly documented so Investment Managers and Reconciliation Vendors can better understand and code for the additional information being provided by Custodians.

MANAGING SECURITIES LENDING COLLATERAL

In an effort to introduce straight-through processing for non-cash collateral transactions, the Group will start work on a document which will clearly define this activity and allow for the development of best practices in this area. By publishing an industry standard where the actors understand their roles and how the messaging is to flow between them, the Securities Lending Working Group is aiming to achieve and promote the value of full automation, not just for securities collateral, but also cash collateral when ISO20022 becomes the "de facto" standard in 2010.

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On the Horizon for Securities Lending:

- Re-hypothecation and the nightmare which awaits us when it comes to asset reconciliation and the processing of income and corporate actions for re-hypothecated positions

GLOSSARY:

Re-Hypothecation: The re-use (trading, lending) of securities collateral originally held to back lending agreements and repo contracts